MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

DTX5028 – TAXATION 2

(All sections)

16 OCTOBER 2017
9.00 am - 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **11** pages (**10** pages with **5** questions and **1** page for appendix).
2. Attempt **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1 [TOTAL 20 MARKS]

Gempaq Engineering Sdn. Bhd. is a locally incorporated resident company, and more than 75% of its shareholders are Malaysian citizens. The business consists of manufacturing parts for selected brands of household electrical goods like washing machines and vacuum cleaners. The company closes the accounts to 30 June each year. The results for the financial year ended 30 June 2016 is appended below:

Gempaq Engineering Sdn. Bhd.

Statement of Profit or Loss for the year ended 30 June 2016

	Note	RM'000	RM'000
Sales			467,230
Less: Cost of sales			271,740
Gross profit			195,490
Add: Other income			
Dividend	1	42	
Interest	2	40	
Rental	3	43	125
			195,615
Less: Expenses			
Salaries and wages	4	1200	
Loan interest	5	86	
Entertainment	6	260	
Depreciation		80	
Repair and maintenance	7	427	
Bad and doubtful debts	8	577	
Motor vehicle expenses	9	80	
Loss on sale of motor car		15	
Penalty for late payment of sales tax		750	
Lease payments	10	218	
Advertisement and publicity	11	595	
Professional fees	12	122	
Insurance	13	80	
Training	14	32	
Donation	15	45	4,567
Profit before taxation			**191,048**

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Notes to the account:

1. Dividend

The company received a single tier dividend of RM18,000 paid by a local listed company in January 2016 and another dividend of RM24,000 from an investment in an electronic company in Japan. This dividend was remitted to Malaysia in May 2016.

2. Interest

The company charges interest on late payment by debtors and received RM40,000 on overdue accounts during the year.

3. Rental

The company received RM43,000 from a company for renting out a space in its premises.

4. Salaries and wages – managing director

Payment to the managing director charged under 'Salaries and Wages' is as follows:

	Particulars	RM'000
(a)	Salary	264
(b)	EPF contribution	58
(c)	One free overseas trip	23
	Total	**345**

5. Interest

The company paid interest on a loan taken from a local bank. RM26,000 was interest on a loan for investment purposes and the balance of RM60,000 is for working capital.

6. Entertainment

	Particulars	RM'000
(a)	Company annual dinner	30
(b)	Payment to the company's marketing staff to disburse their entertainment expenses	120
(c)	Entertainment for local customers	60
(d)	Promotion expenses incurred on the company's new products	50
	Total	**260**

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7. Repair and maintenance

The company extended the sales office for RM168,000. RM59,000 refers to the maintenance of the production plant and machinery. End of the year the company incurred RM200,000 to replace the entire factory building.

8. Bad and doubtful debts

The company's bad and doubtful account is as summarized below:

	Particulars	RM'000
(a)	Trade debtors written off	114
(b)	General provision for bad debts (trading account)	260
(c)	Specific provision for bad debts (loan account)	143
(d)	Bad debts written off being advance to customer	21
(e)	Bad debts written off being advance to supplier	39
	Total	**577**

9. Motor vehicle expenses

Compounds and fines for traffic violations by the company's marketing staff amounted to RM14,000 while RM66,000 refers to repairs, spares, insurance, and road tax for the company commercial vehicles.

10. Lease payments

The company leased a passenger car during the year and paid RM100,000; and leased a lorry for RM118,000.

A new passenger car of the type leased would cost RM300,000.

11. Advertisement and publicity

During the year the company acquired a patent on a product that cost RM104,000. Other advertising during the year included TV commercials costing RM426,000 while another RM65,000 was incurred on gift to customers who made purchases exceeding a set threshold.

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12. Professional fees

During the year, the company had incurred and paid the following professional charges:

	Particulars of expenditure	RM'000
(a)	Termination of a supply contract which was proving to be unprofitable	12
(b)	Guarantee fee on a bank loan for the company's director	18
(c)	Preparing a lease agreement for the motor vehicle and the machine that was leased during the year.	13
(d)	Preparing a new supply contract with a local brand for the manufacture of parts	7
(e)	Secretarial fees to a professional firm	8
(f)	Tax filing fees, including GST returns	16
(g)	Income tax appeal	35
(h)	Accounting and auditing fee	13
	Total	**122**

13. Insurance

During the year the company imported some cargo and insured the risk with a local insurance company for RM20,000. Some cargoes were exported during the year and this was insured with a foreign company for RM26,000. The company's fixed assets were insured against fire and flood with a local insurance company for RM34,000.

14. Training

The company incurred RM9,000 on the provision of practical training in Malaysia related to business to non-employees and another RM10,000 on training for employees for the implementation of GST.

The balance of RM13,000 was incurred on external training for the employees to increase their efficiency and motivation towards job assigned.

15. Donation

The company made a cash donation of RM45,000 to the Selangor State Government during the year.

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16. Other information:

For the year of assessment 2016, the company is claiming capital allowance of RM48,000,000 on its assets used in the business and balancing allowance of RM15,000,000. Ranjitncing charge for the year of assessment 2016 is RM5,500,000.

Required:

Based on the information given, compute the chargeable income of Gempaq Engineering Sdn Bhd for the year of assessment 2016.

Note:

Your computation should start with the profit before taxation figure and follow the description used in the statement of profit or loss account, and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making.

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QUESTION 2 [TOTAL 20 MARKS]

Vishall Medical Center Sdn. Bhd. is a local resident company incorporated in 2010 to carry on the business of providing medical services. It closes its accounts to 30 June each year. In the year 2012, the company acquired a piece of land and constructed its own hospital building, completed in December 2014. The relevant expenditure incurred is as follows:

Particulars of expenditure	**RM**
Cost of land	184,515
Legal fee for transfer of land	18,433
Cutting and leveling land	106,079
Excavation and preparation of site for construction	37,327
Piling and foundation works	624,394
Construction of building	4,728,580
Construction of perimeter wall	16,129
Architect fee for the hospital building design	64,515
Legal services for obtaining various building approval	29,954
Subcontract charges for installation of wiring and plumbing	34,101
Landscaping charges	29,973
	5,874,000

The company also obtained a 30 year lease on an adjoining building in April 2015 and renovated it at a cost of RM870,550 for business purposes. The renovation was completed in May 2015 and was brought to use in early June 2015. Four-fifth (4/5) of the leased renovated building was used as a medical facility while one-fifth (1/5) was used purely for administrative purposes.

Required:

With reference to the Income Tax Act 1967 (as amended), compute the industrial building allowances due to Vishall Medical Centre Sdn Bhd for the years of assessment 2015 and 2016 indicating the residual expenditure to be carried forward to the year of assessment 2017.

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QUESTION 3 [TOTAL 20 MARKS]

PART A

Melaka Timber Sdn Bhd (accounting year end December 31st) is a company involved in the timber extraction business. The company incurred the following expenditures:

Date	Expenditure	RM
2/3/2012	Construction of a road	30,000
4/5/2013	Construction of an office building	45,000
6/7/2013	Construction of labour quarters	58,000

Required:

(a) Compute the forest allowances available to the company for all the years of assessment up to year of assessment 2016. **(6 marks)**

(b) If Melaka Timber Sdn Bhd permanently ceased its timber extraction business on 3 November 2016 compute the forest allowance due to the company.

(6 marks)

PART B

RNZ Mines Sdn Bhd operated a mine from 1 January 2009. The company incurred expenditure RM2,400,000 for the year ended 31 December 2009. The expected life of the mine was 10 years. The mine, however was worked out by 30 June 2016.

Required:

Calculate the mining allowances due to RNZ Mines Sdn Bhd for all the YAs.

(8 marks)

Continued.....

QUESTION 4 [TOTAL 20 MARKS]

The partnership of Angelina and Nana commenced on 1 January 2009 and accounts are prepared to 31 December annually. The partnership agreement provided for the following:

1. Interest on capital : 10% per annum for each partner

Capital contribution	RM
Angelina	80,000
Nana	110,000

2. Salary (per month)

Angelina	2,100
Nana	2,400

3. Share of divisible income/(loss)

Angelina	1/4
Nana	3/4

On 30 June 2016, Angelina left the partnership and withdrew his accumulated capital and profits up to that date.

On 1 July 2016, Naim joined the partnership and the new partnership agreement provided for the following:

1. Interest on capital : 10% per annum for each partner

Capital contribution	RM
Nana	120,000
Naim	120,000

2. Salary (per month)

Nana	2,300
Naim	2,300

3. Share of divisible income/(loss)

Nana	1/2
Naim	1/2

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The partnership's trading, profit and loss account for the year ended 31 December 2016 was as follows:

	RM
Income from construction contract	9,553,400
Less : Cost of construction	(9,118,700)
Profit from construction	434,700
Other income	154,600
	589,300
Less : General overhead	(337,300)
Net profit for the year	252,000
Included in the general overhead are:	
Partners' salary	54,600
Partners' interest on capital	21,500
Depreciation on fixed asset	32,800

Capital allowance for the year of assessment 2016 was RM31,400.

Required:

Calculate the statutory income of each partner from the partnership for the year of assessment 2016.

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QUESTION 5 [TOTAL 20 MARKS]

Mr. Ranjit signed an agreement for the purchase of a piece of land on 14 July 2013 for RM435,000. He fully settled the payment on 30 September 2013 and the vendor then transferred the land to him on 21 November 2013.

Mr. Ranjit incurred the following expenses in acquiring the land: stamp duty of RM5,785 and legal fees of RM3,446. He then spent RM57,755 on enhancing (levelling and draining etc.) the land after the purchase.

In March 2014, he received a compensation of RM36,600 for flood damages to the land; and again another compensation of RM18,300 was received in April 2014, also for flood damages.

In October 2014, Mr. Ranjit negotiated the sale of the land and received a deposit of RM10,000 but this was forfeited when the buyer absconded on the deal. Mr. Ranjit also spent RM8,540 being legal fees to defend his title to the land when a claim arose from his ex-wife.

Subsequently, a buyer agreed to purchase the land for RM578,000, and signed an agreement with Mr. Ranjit on 15 October 2015. The payment was settled on 15 November 2015, and the title was transferred (to the buyer) on 15 December 2015.

In disposing the land, Mr. Ranjit had incurred the following expenditure: valuation fee RM8,183; advertisement for buyer RM1,444 and brokerage fee RM11,550.

Up to the time of sale, Mr. Ranjit had incurred an interest charge of RM77,006 on the mortgage loan he took to buy the land, and had also incurred legal fees of RM4,000 to a lawyer to advise and handle the disposal.

Required:

In relation to the Real Property Gains Tax 1976, compute the chargeable gain arising from the disposal of the property after exemption under Schedule 4 of the said Act.

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2016:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Agriculture Allowances YA 2016:

Capital expenditure incurred on:	Rate
(a) the clearing and preparation of land for the purpose of agriculture	50%
(b) the planting (but not replanting) of crops on land cleared for planting	50%
(c) the construction on a farm of roads or bridges	50%
(d) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%
(e) construction of any other building (smoke house, estate office)	10%

Rates of Real Property Gains Tax: ***Effective 1st January 2014 onwards***

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

[TOTAL: 100 MARKS]

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